B4750-1
9/27/83

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Sept. 23, 1983

For a time this past week market participants became enthused--convinced that the Fed was easing its policies. Enthusiasm was triggered by the fact that in a five-day operating period the Fed executed or announced eight separate reserve-adding transactions: two large customer RPs, one outright purchase of securities, and five System RPs. These perhaps "too obvious" signals of "easing" by the Fed helped the market to rally through an auction period despite a $5.5 billion increase in the money stock reported the previous Friday. These reactions reflect but a partial and preliminary reading of the tea leaves. Indeed, these operations can easily be dismissed in terms of their significance as policy indicators.

By now most observers are aware that there is a good technical reason for the Fed to have done all these RPs. As tax receipts have come into the U.S. Treasury, and with quarter-end approaching, the government temporarily finds itself with excess cash balances. To some extent these balances are redeployed at commercial banks. However, the Treasury requires that banks collateralize these deposits with government securities to protect their value. Thus banks set a limit on the amount of these deposits they will accept. When the Treasury's balances exceed this amount, the excess spills over into the Treasury's Fed account, draining reserves from the banking system and requiring the Fed to offset this drain. Thus we get System RPs.

Even so, some analysts have taken the position that the Fed's oversupplying of reserves--evidenced by the low Fed funds rate--represents a tilt toward an easier Fed policy overall. But this conclusion attributes to the Fed too great an ability to fine tune the market. Moreover, if the Fed is purposely being more accommodative with reserves, this may not reflect policy as much as politics. In early August, during the last round of auctions, the Fed let the funds rate rise, and the auctions went poorly. Treasury Secretary Regan blamed the Fed for tightening. Mr. Volcker denied any significant change in policy had occurred relative to the course that had been embarked upon in late May. He continued to say that large government budget deficits were responsible for the market jitters and the poor auctions. The subsequent release of FOMC minutes and intermeeting telephone conferences did reveal that, in late July, a course of marginally more restrictive reserve availability (though not necessarily higher interest rates) had been agreed to. With this legacy from the last set of auctions the Fed may have decided to be somewhat easier on rates during the recent auctions, even without changing its policy.

The Fed's signals are going to be hard to read until we get through this end-of-quarter period with its technical factors. However, the continuing strength of the economy argues for continued firm rates. The weaker money growth gives the Fed some slack to lower rates. This explains why the market is encouraged and has moved more than the Fed has. While this is not necessarily inappropriate, we should not expect too much from the Fed too soon--the money stock has grown a great deal already this year.

Robert A. Brusca

Irving Trust

Market Yields

	9/23/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	13.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	10.00
Federal Funds	9.13	9.63	10.25
Repurchase Agreements	8.95	9.60	9.50
U.S. Treasury Issues			
Bills			
3 months	9.23	9.40	7.82
6 months	9.49	9.81	9.75
1 year	9.87	10.19	10.69
Coupons			
2 years	10.64	10.91	11.71
4 years	11.12	11.36	12.01
7 years	11.48	11.67	12.05
10 years	11.49	11.73	12.28
Long Bond	11.49	11.76	11.88
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.25	9.40	10.10
3 months	9.25	9.50	10.75
6 months	9.40	9.75	11.20
1 year	9.80	10.35	11.65
Banker's Acceptances			
1 month	9.20	9.42	10.00
3 months	9.25	9.55	10.65
6 months	9.52	9.86	11.20
Eurodollar Deposits			
1 month	9.68	9.94	11.13
2 months	9.68	10.00	11.50
3 months	9.75	10.00	11.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.63	9.65	9.90
1 month	9.19	9.59	10.10
3 months	9.34	9.60	10.67
Bank Holding Companies			
1 month	8.94	9.19	9.84
Dealer Placed:			
3 months	9.54	9.73	9.74
New AA Corporate Utility Bond	12.55	13.00	14.00
Tax Exempt			
6 month Project Notes	5.40	5.65	5.20
1 year AAA Bond	5.50	5.50	6.00
5 year AAA Bond	6.75	6.70	7.50
20 year AAA Bond	9.00	9.35	9.75

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629